

**Arkansas
Judicial
Retirement System**



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2002

Annual Financial Report

Arkansas Judicial Retirement System

Annual Financial Report

For the Year Ended June 30, 2002

Prepared by: APERS Administrative Staff

**Gail H. Stone, Executive Director
Michele Williams, Deputy Director**

**One Union National Plaza, Suite 400
124 West Capitol
Little Rock, AR 72201**

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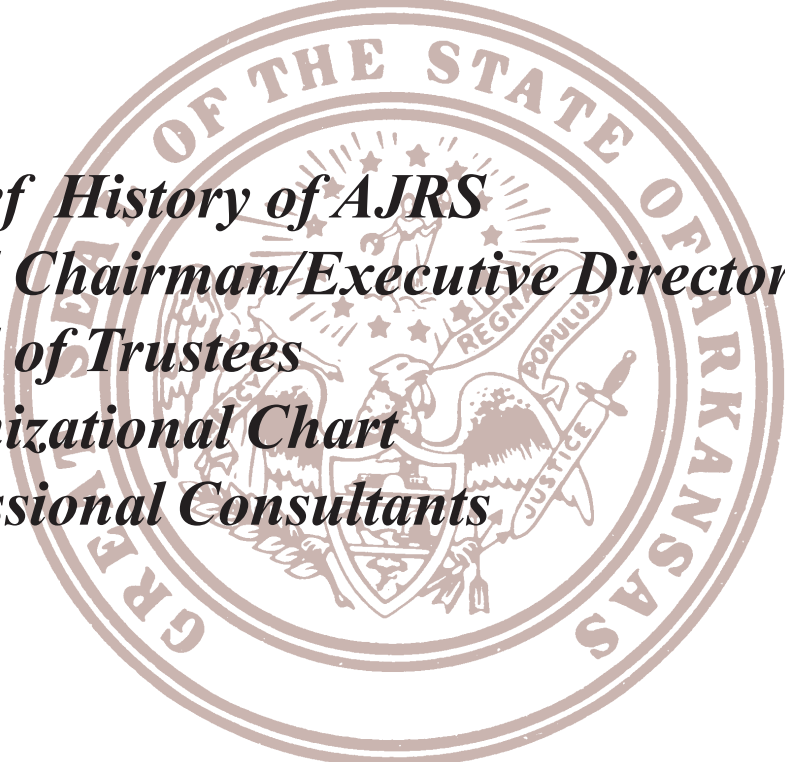
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Introduction

I



A Brief History of AJRS
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A Brief History of AJRS

Established on March 28, 1953, with the passage of Act 365, the Arkansas General Assembly created the Arkansas Judicial Retirement System (AJRS). This System provides for the retirement of all Circuit Judges, Court of Appeals Judges and Supreme Court Justices. Act 399 of 1999 created a Tier II benefit plan for all persons who become members of the System after the effective date of this Act. Any active member of the System prior to the effective date of Act 399 has until the end of the term in office in which the member is serving on the effective date to elect coverage under Tier II.

The statutes providing for and governing the Arkansas Judicial Retirement System may be found in Chapter 8 of Title 24 of the Arkansas Code Annotated. The administration and control of the System is vested in the Board of Trustees. The Board is appointed by the Arkansas Judicial Council.

This annual financial report, which covers the period from July 1, 2001 through June 30, 2002, provides comprehensive information about the System including statements of financial condition, investment objectives and policy, an actuarial report, historical and statistical information on active members, annuitants and benefit payments, as well as a description of the retirement plan.

ARKANSAS JUDICIAL RETIREMENT SYSTEM

BOARD OF TRUSTEES

ROBERT EDWARDS, Chairman
Circuit Judge

GAYLE FORD
Circuit Judge

COLLINS KILGORE
Circuit Judge

CAROL CRAFTON ANTHONY
Circuit Judge

JIM GUNTER
Circuit Judge

December 12, 2002

GAIL H. STONE, Executive Director
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, Arkansas 72201

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2002. The report is designed to provide a clear and concise picture of the financial conditions of the System. The report includes the following sections:

§ Introduction

§ Financial

§ Actuarial

§ Investment

Accounting System

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the Arkansas Judicial Retirement System Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to date of collection, and expenses are recorded when incurred, regardless of when payment is made. Investments are reported at market values determined by the custodial agent. The agent's determination of market value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Revenues

The fiscal year 2002 revenue from employer and employee contributions totaled \$3.2 million. This amount is \$693,300 less than the amount received in fiscal year 2001.

Court fees for fiscal year 2002 were \$904,000, a decrease of \$36,000 from fiscal year 2001.

Miscellaneous income was \$35,000 for fiscal year 2002, a decrease of \$18,000 from fiscal year 2001.

Investment income for fiscal year 2002 was (\$3.9) million, (after investment expenses of \$512,000 (see page 28)), a decrease of \$2.1 million from fiscal year 2001. Overall, the System's revenues decreased by \$2.9 million from fiscal year 2001.

Expenses

Benefit payments for fiscal year 2002 were \$5.0 million, or \$1.2 million greater than fiscal year 2001. Administrative expenses were \$45,000, of which \$14,000 was for professional fees and \$19,000 was transferred to APERS for indirect administrative costs. Refund expenses were \$15,000.

Funding

The System is funded through contributions from the State, employees and investment income. The general financial objective of the System is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation.

Investments

In accordance with the Investment Code contained in the Arkansas Code Annotated (A.C.A.), Title 24, Chapter 2, the Board of Trustees is required to invest the funds in conformity with the "prudent investor rule." The Investment Code permits the Board to establish an investment policy based upon certain investment criteria and allows the Board to retain professional investment advisors to assist the Board in making investments. The Board has established an investment policy that reflects the level of risk that is deemed appropriate for the Fund. The investment advisor retained by the Board is listed on the schedule of professional services' contractors.

Professional Services

Professional services are provided to AJRS by a firm selected by the AJRS Board of Trustees to aid in the efficient and effective management of the System. A listing for this firm as well as other professional services' contractors retained by AJRS is shown on page 12 of this report.

Acknowledgments

This report is the result of the combined efforts of the Arkansas Public Employees Retirement System staff under the direction of the Arkansas Judicial Retirement System Board of Trustees. Its purpose is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with legal provisions, and as a means for determining responsible stewardship over the assets contributed by the members and employers.



Judge Robert Edwards
Chairman, AJRS Board



Gail H. Stone
Executive Director

Board of Trustees

The Honorable Robert Edwards, Chair

Circuit Judge
White County Courthouse
Searcy, AR 72143
501-279-6212

The Honorable Gayle Ford

Retired Circuit Judge
P.O. Box 1586
Mena, AR 71953
479-394-5475

The Honorable Collins Kilgore

Circuit Judge
401 W. Markham, Suite 330
Little Rock, AR 72201
501-340-8534

The Honorable Carol Crafton Anthony

Circuit Judge
101 N. Washington, Suite 203
El Dorado, AR 71730
870-864-1947

The Honorable Jim Gunter

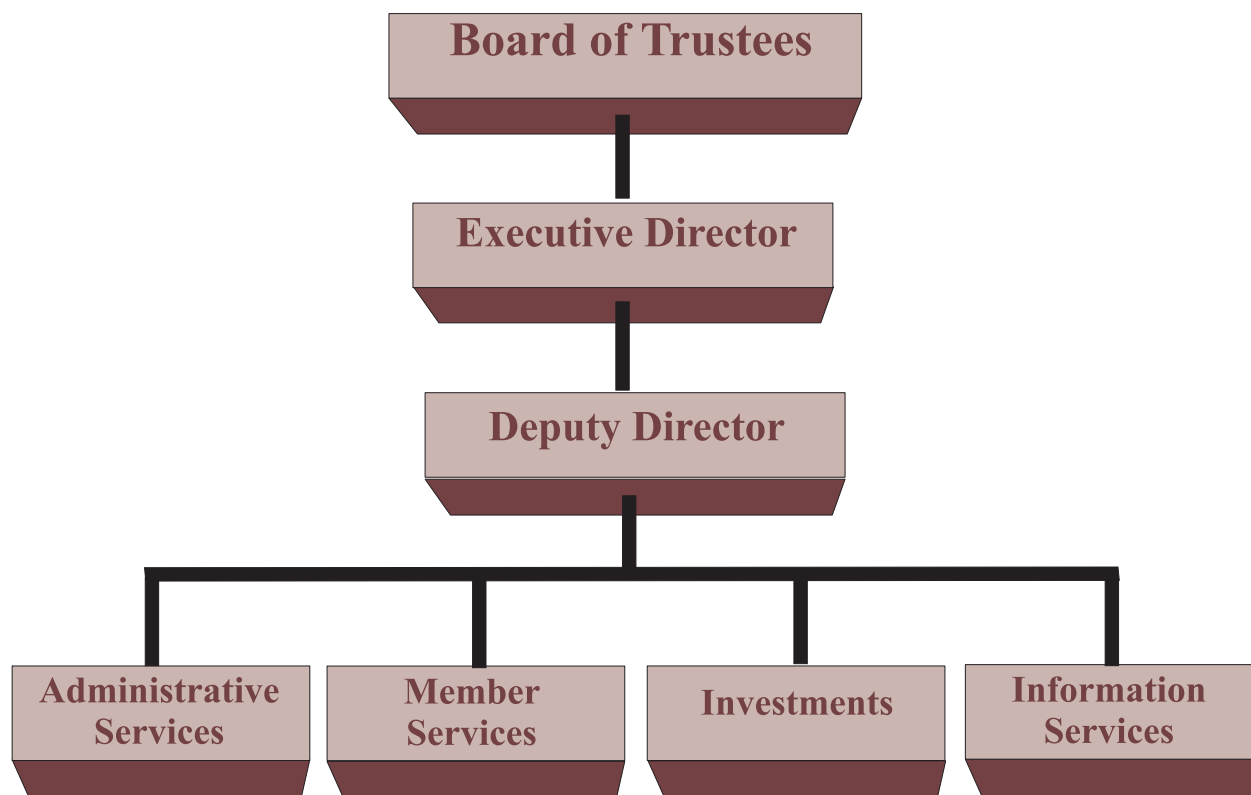
Circuit Judge
P.O. Box 621
Hope, AR 71801
870-777-4544

Administrative Office

Gail H. Stone, Executive Director

Arkansas Judicial Retirement System
One Union National Plaza
124 West Capitol, Suite 400
Little Rock, AR 72201
501-682-7800
1-800-682-7377

Organizational Chart



Administrative Staff

Gail H. Stone
Michele Williams
Susan Bowers
Jackie Parrish
Becky Walker
Jon Aucoin

Executive Director
Deputy Director
Associate Director, Investments
Member Services Manager
Administrative Services Manager
Information Services Manager

Professional Consultants

Actuary

Gabriel, Roeder, Smith & Company
Actuaries and Consultants
One Town Square, Suite 800
Southfield, MI 48076

Custodian Bank

The Bank of New York
One Wall Street
New York, NY 10286

Investment Manager

Loomis, Sayles & Company, L.P.
227 W. Monroe Street
60th Floor
Chicago, IL 60606

Boston Partners Asset Management
28 State Street
Boston, MA 02109

Investment Consultant

Callan Associates, Inc.
Six Concourse Parkway, Suite 2900
Atlanta, GA 30328

Financial

II

Statement of Plan Net Assets

Statement of Changes in Plan Net Assets

Notes to the Financial Statements

Schedule of Funding Progress

Notes to Required Supplemental Schedule

*Schedule of Contributions from Employer
& Other Entities*

Schedule of Revenues by Source

Schedule of Expenses by Type

Schedule of Administrative Expenses

Schedule of Investment Expenses

Comparative Schedule of Investments

Statement of Plan Net Assets
June 30, 2002 and 2001

ASSETS	<u>2002</u>	<u>2001</u>
Cash and Cash Equivalents	\$ 18,233,177	\$ 5,901,430
<u>Receivables:</u>		
Contributions	115	-
Investment Principal Receivable	580,282	345,776
Accrued Investment Income Receivable	720,660	979,734
Total Receivables	1,301,057	1,325,510
<u>Investments, At Fair Value:</u>		
Government Securities:		
U.S. Treasury Securities	3,386,680	2,199,006
U. S. Government Agency Securities	18,242,072	20,690,869
Corporate Securities:		
Asset Backed Securities	2,864,569	1,462,807
Corporate CMO	825,644	808,290
Corporate Bonds	23,360,960	30,803,326
Equity Securities	44,129,766	53,192,757
Total Investments	92,809,691	109,157,055
Fixed Assets, Net *	-	-
TOTAL ASSETS	<u>112,343,925</u>	<u>116,383,995</u>
LIABILITIES		
Accrued Expenses and Other Liabilities	132,090	142,635
Investment Principal Payable	1,467,894	726,627
TOTAL LIABILITIES	<u>1,599,984</u>	<u>869,262</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 110,743,941</u>	<u>\$ 115,514,733</u>
(A schedule of funding progress is presented on page 22)		

* Assets owned by the System are fully depreciated.

***Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2002 & 2001***

ADDITIONS	<u>2002</u>	<u>2001</u>
<u>Contributions:</u>		
Employer	\$ 2,415,200	\$ 3,136,072
Employee	772,874	745,311
Court Fees	<u>904,033</u>	<u>940,424</u>
Total Contributions	4,092,107	4,821,807
 <u>Investment Income:</u>		
Interest	3,356,995	3,872,911
Dividends	629,907	629,386
Investment Gain	<u>(7,347,696)</u>	<u>(5,731,622)</u>
Total Investment Income	(3,360,794)	(1,229,325)
 Less: Investment Expense	<u>511,816</u>	<u>534,509</u>
Net Investment Income	(3,872,610)	(1,763,834)
 <u>Other Additions:</u>		
Miscellaneous Additions	35,323	53,267
 TOTAL ADDITIONS	254,820	3,111,240
 DEDUCTIONS		
Benefits	4,966,371	3,769,698
Refunds of Contributions	14,634	19,199
Administrative Expenses	<u>44,607</u>	<u>49,485</u>
 TOTAL DEDUCTIONS	5,025,612	3,838,382
 NET INCREASE	(4,770,792)	(727,142)
 NET ASSETS		
Beginning of Year	<u>\$ 115,514,733</u>	<u>\$ 116,241,875</u>
 End of Year	<u>\$ 110,743,941</u>	<u>\$ 115,514,733</u>

Notes to General Purpose Financial Statements For the Years Ended June 30, 2002 and 2001

1. DESCRIPTION OF THE SYSTEM

General Information - The Arkansas Judicial Retirement System (AJRS) is a single employer, defined benefit pension plan established on March 28, 1953. This system provides for the retirement of all Circuit Judges, Court of Appeals Judges, and Supreme Court Justices. The laws governing operations of AJRS are set forth in Ark. Code of 1987 (Annotated) 24-8-204 through 24-8-228 and 24-8-701 through 24-8-717.

The administration and control of the System is vested in the Board of Trustees of AJRS, which includes five (5) members selected by the Arkansas Judicial Council.

Membership - As of June 30, 2002, there was one participating employer in the plan. In addition, supplemental contributions are paid to the system from the Constitutional and Fiscal Agencies Fund in accordance with Section 8 of Act 922 of 1983.

As of June 30, 2002 and 2001, Membership was as follows:

	2002	2001
Retirees and Beneficiaries Receiving Benefits	81	82
Terminated Plan Members Entitled To But Not Receiving Benefits	1	1
Active Plan Members	133	131

Contributions – Contribution provisions are established by state law and may be amended only by the Arkansas General Assembly. The contribution rate of each member of the System shall be 6% of annual salary (A.C.A. 24-8-209) for Tier I and 5% of annual salary (A.C.A. 24-8-706) for Tier II. When a judge is certified as eligible for retirement, no further contribution shall be required of him (A.C.A. 24-8-211) for Tier I and (A.C.A. 24-8-712) for Tier II. The employer contribution rate is 12% of salaries paid. In addition to the 12% employer rate, the Chief Fiscal Officer of the State is required to transfer from the Constitutional and Fiscal Agencies Fund an amount that is equal to the difference between the mandatory contribution rate and the actuarially determined rate necessary to fund the plan (A.C.A. 24-8-210).

Plan Administration – Costs for administering the plan are paid out of the investment earnings.

Benefit Eligibility - An active member in Tier I with a minimum of ten (10) years of credited service may voluntarily retire upon reaching sixty-five (65) years of age or thereafter upon filing a written application with the Board. Any other Tier I member who has a minimum of twenty (20) years of credited service may retire regardless of age, and any judge or justice who has served at least fourteen (14) years shall be eligible for benefits upon reaching age sixty-five (65) years.

In all cases of age and service retirement for judges or justices elected after July 1, 1983 and remaining in Tier I, the member must have a minimum of eight (8) years of actual service as a Justice of the Supreme Court or a judge of the Circuit or Chancery Courts or the Court of Appeals. An active or former member in Tier II may retire at age 65 with eight (8) or more years of credited service, or after twenty (20) years of credited service regardless of age.

Increases After Retirement - For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased from time to time as the salary for the particular judicial office is increased or decreased. For all judges or justices first elected after July 1, 1983, and who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%. Authority for post retirement increases are: Tier I-(1) A.C.A. 24-8-218 (c) (1) (B) for judges first elected prior to 7-1-83 and (2) A.C.A. 24-8-223 for judges first elected after 7-1-83; Tier II-A.C.A. 24-8-715.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting – The financial statements of the System presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

Cash and cash equivalents – Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, and all short-term instruments with maturities at purchase of 90 days or less. Short-term investments are stated at amortized cost, which approximates fair value.

Investments – According to the Arkansas Code of 1987 annotated and 1993 Cumulative Supplement, Title 24, Chapter 2, the System's investments are governed by the prudent investor rule, and include U.S. Government and government agency obligations, and corporate debt and equity obligations. Investments are reported at fair value.

Security transactions and any resulting gains or losses are accounted for on a trade date basis.

Investments are reported at fair values determined by the custodial agent. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Approximately 20% of the net assets available for benefits are invested in bonds of the U.S. government and its instrumentalities. The System has no investments of any commercial or industrial organization whose market value equal 5% or more of the System's net assets available for benefits.

Net investment income includes net appreciation in the fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

Fixed Assets – Fixed assets used in the plan operations consist of equipment, which is recorded at historical cost less accumulated depreciation. All such assets are depreciated over five years using the straight-line method of depreciation.

3. SECURITIES LENDING TRANSACTIONS

AJRS did not participate in any securities lending transactions for years ending June 30, 2002 and 2001, therefore, GASB Statement No. 28 does not apply.

4. DERIVATIVES

Mortgage-Backed Securities – As of June 30, 2002 and 2001, the System held mortgage-backed securities of approximately \$13.2 million and \$12.3 million, respectively, at fair value. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to prepay the existing loan and obtain new lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors such as loan types and geographic location of the related properties.

Asset-Backed Securities – As of June 30, 2002 and 2001, the System held asset-backed securities with a fair value of approximately \$2.9 million and \$1.5 million, respectively. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The System's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

5. LEGALLY REQUIRED RESERVES

A description of reserve accounts and their balances for years ended June 30, 2002 and 2001 are as follows:

The Members' Deposit Account ("MDA") represents members' contributions held in trust until member's retirement, at which time contributions are transferred to the Retirement Reserve Account, described below.

The Employers' Accumulation Account accumulates employers' contributions to be used in providing the reserves required for transfer to the Retirement Reserve Account as members retire or become eligible for disability benefits.

The Retirement Reserve Account is the account to which member contributions, interest on those contributions, and employer contributions are transferred upon member retirement.

Financial Section

The Deferred Annuity Account is the account set up to cover estimated retirement benefits to inactive vested members who are not currently receiving benefit payments.

	2002	2001
Members Deposit Account	\$ 9,315,835	\$ 8,522,270
Employer Accumulation Account	48,385,019	68,529,023
Retirement Reserve Account	53,043,087	38,197,664
Deferred Annuity Account	0	265,776
Total	<u>\$110,743,941</u>	<u>\$115,514,733</u>

Actuarial Computed Liabilities - The total unfunded actuarial computed liability of the System as adjusted to fair value, based on Entry Age Normal Cost Method which is the Projected Benefit Method with a supplemental cost, used for determining required contributions as appears in the actuarial valuation, was \$522,498 as of June 30, 2002.

Actuarial Present Value of	(1) Total Present Value	(2) Portion Covered By Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1) (2)
Benefits to be paid to current retirants, beneficiaries and future beneficiaries of current retirants	\$ 54,216,312	\$ 0	\$ 54,216,312
Age and service allowances based on total service likely to be rendered by present active members	91,965,853	27,864,523	64,101,330
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	1,409,132	1,212,460	196,672
Disability benefits likely to be paid to present active members	4,951,565	2,303,673	2,647,892
Death in service benefits likely to be paid on behalf of present active members (employer financed portion)	<u>5,710,382</u>	<u>2,138,338</u>	<u>3,572,044</u>
Total	<u>\$ 158,253,244</u>	<u>\$ 33,518,994</u>	<u>\$ 124,734,250</u>
Applicable Assets (Funding Value)	<u>124,211,752</u>	<u>0</u>	<u>124,211,752</u>
Liabilities to be Covered by Future Contributions	<u>\$ 34,041,492</u>	<u>\$ 33,518,994</u>	<u>\$ 522,498</u>

Actuarial Cost Method and Assumptions - The Board engages an independent firm of actuaries to estimate the present value of actuarial accrued liability and the pension benefit obligations for the purpose of determining required reserves for current and terminated participants, retired individuals and beneficiaries, and for the determination of employer contribution rates.

Actuarial accrued liabilities are those future periodic payments including lump sum distributions that are attributable to the service employees have rendered to date and the plan provisions of the System. The present value of actuarial accrued liabilities is calculated based on the entry age actuarial cost method with benefits based on projected salary increases.

The schedule on the preceding page presents the primary actuarial assumptions used in the actuarial report dated June 30, 2002. The actuarial assumed interest rate of 7.0% was allocated to appropriate actuarial accrued liabilities.

Actuarial Gains and Losses - Actuarial gains and losses result from the differences between the actuarial accrued liability amount computed by the actuary and those same amounts reflected in the required supplemental schedules as of the date of the actuarial report. The net actuarial gain or loss increases or decreases the unfunded actuarial accrued liability based on the annual actuarial valuation.

The 2002 actuarial gains and losses were due to routine adjustments of actuarial assumptions and methodology as well as normal experience gains and losses. The resulting actuarial gain was \$1.5 million.

6. REQUIRED SUPPLEMENTARY SCHEDULES

The historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is included immediately following the notes to the financial statements.

* * * * *

***Required Supplemental Schedule
Schedule of Funding Progress
(\$000)***

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Accrued Liability (UAAL) (2 - 1)	(4) Funded Ratio (1/2)	(5) Covered Payroll	(6) UAAL* As Percentile of Covered Payroll (3/5)
1996	\$ 51,478	\$ 63,452	\$ 11,974	81%	\$ 11,062	108%
1997	63,285	65,657	2,372	96%	11,857	20%
1998	77,175	71,274	(5,901)	108%	12,451	(47%)
1999	91,783	82,776	(9,007)	111%	13,306	(68%)
2000	107,059	83,211	(23,848)	129%	13,881	(172%)
2001	119,191	116,073	(3,118)	103%	14,347	(22%)
2002	124,212	124,734	522	99%	15,112	3%

*Unfunded Actuarial Accrued Liability

Notes to Required Supplemental Schedule

Actuarial Assumptions - The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2002
Actuarial cost method	Individual entry age normal cost
Amortization Method	
Tier I	30 year open
Tier II	15 year open
Remaining Amortization Period	30 years
Asset Valuation Method	4 year smoothed market
Actuarial Assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Mortality Table	1994 Group Annuity Mortality Table
Group Size Growth Rate	0.00%
Post retirement cost-of-living-increases:	
Pre July 1, 1983	Increased with increases in active judges' pay
Post June 30, 1983	3.0% annual compound increases

Required Supplementary Information
Schedule of Contributions from Employer and Other Contributing Entities
(\$000)

<u>Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed (1)</u>
1993	\$ 2,438	100%
1994	2,863	99
1995	3,112	100
1996	3,251	101
1997	4,431	100
1998	3,688	99
1999	3,223	98
2000	3,119	102
2001	3,145	100
2002	3,361	99

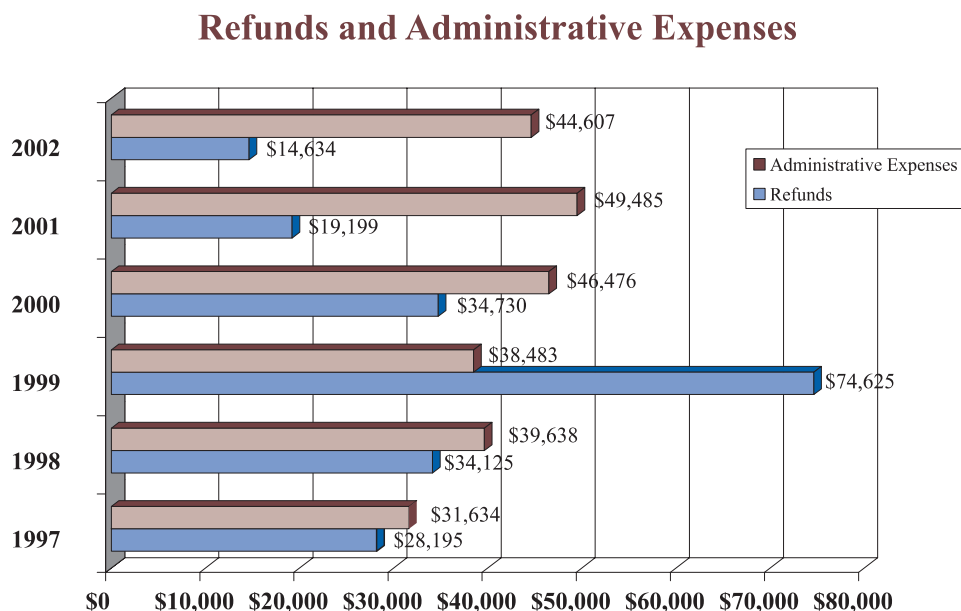
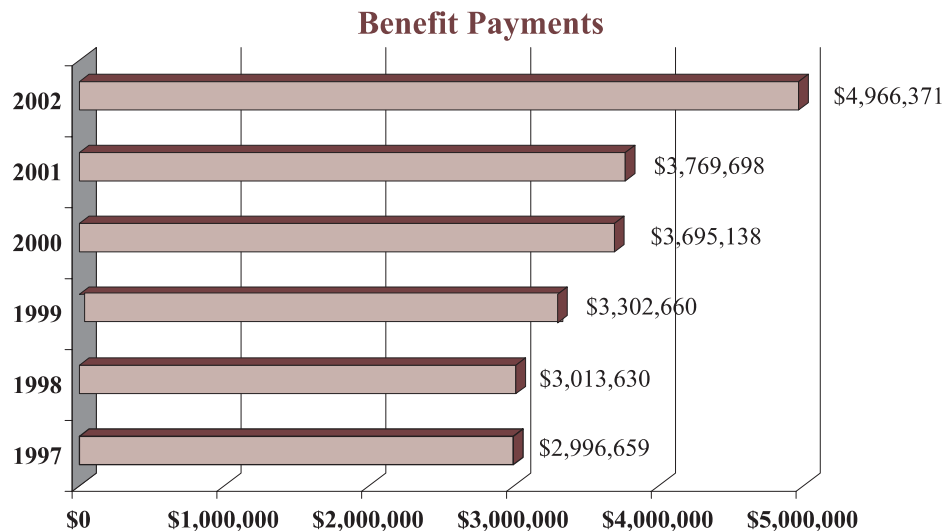
- (1) Amounts are included per Act 922 of 1983, which authorizes an annual transfer from the Constitutional Officers Fund and the State Central Services Fund to provide full actuarial funding for the System. Because of the timing of this annual transfer, the actual percentage contributed in any single fiscal year may vary from the annual required contribution amount.

***Revenues By Source
For the Fiscal Years 1997-2002***

Year Ending <u>June 30</u>	<u>Employee Contributions</u>	<u>Employer & Other Entity Contributions</u>	<u>Court Fees</u>	<u>Misc.</u>	<u>Investment Income</u>	<u>Total</u>
1997	\$ 617,789	\$ 4,441,390	\$ 939,476	\$ 0	\$ 10,511,030	\$ 16,509,685
1998	642,686	3,650,957	913,840	39,008	16,078,109	21,324,600
1999	685,233	3,160,811	908,327	147,783	12,206,449	17,108,603
2000	732,545	3,183,709	870,629	218,263	11,231,322	16,236,468
2001	745,311	3,136,072	940,424	53,267	(1,763,834)	3,111,240
2002	772,874	2,415,200	904,033	35,323	(3,872,610)	254,820

***Expenses by Type
For the Fiscal Years 1997-2002***

Year Ending June 30	Benefit Payments	Refunds	Administrative Expenses	Total
1997	2,996,659	28,195	31,634	3,056,488
1998	3,013,630	34,125	39,638	3,087,393
1999	3,302,660	74,625	38,483	3,415,768
2000	3,695,138	34,730	46,476	3,776,344
2001	3,769,698	19,199	49,485	3,838,382
2002	4,966,371	14,634	44,607	5,025,612



Schedule of Administrative Expenses
For the Fiscal Years Ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Communications		
Printing and Advertising	\$ 4,139	\$ 3,763
Travel	3,266	2,279
Purchases		
Office Supplies	296	5
Services and Charges		
Professional Fees & Services	14,400	20,200
Bank & Federal Service Charges	1,606	1,295
Data Processing Service Center Charges	<u>1,778</u>	<u>3,378</u>
Total Service and Charges	17,784	24,873
 Transfer to APERS for Administration	 <u>19,122</u>	 <u>18,565</u>
 Total Administrative Expenses	 <u><u>\$ 44,607</u></u>	 <u><u>\$ 49,485</u></u>

*Schedule of Investment Expenses
For the Fiscal Years Ended June 30, 2002 and 2001*

	<u>2002</u>	<u>2001</u>
Custodian Bank Fees	\$15,000	\$15,000
Investment Consultant Fee	29,870	29,000
Investment Manager Fees	<u>466,946</u>	<u>490,509</u>
Total	<u>\$511,816</u>	<u>\$534,509</u>

***Comparative Schedule of Investments
For the Fiscal Years Ended June 30, 2002 and 2001***

	<u>2002</u>	<u>2001</u>
<u>U.S. Government Securities</u>		
U. S. Treasury Securities	\$ 3,386,680	\$ 2,199,006
U. S. Government Agency Securities	18,242,072	20,690,869
<u>Corporate Securities</u>		
Asset-Backed Securities	2,864,569	1,462,807
Corporate CMO	825,644	808,290
Corporate Bonds	23,360,960	30,803,326
Common Stock	44,129,766	53,192,757
<u>Short-Term Investments</u>	16,501,101	5,828,403
<u>Accrued Income</u>	<u>1,300,942</u>	<u>598,883</u>
Total Investments	<u><u>\$ 110,611,734</u></u>	<u><u>\$ 115,584,341</u></u>

Actuarial

III

Actuary's Certification Letter
Economic Assumptions
Non-Economic Assumptions
Summary of Provisions
Short Condition Test
Schedule of Active Member Valuation Data
Retirees, Beneficiaries Schedule
by Attained Age
Active Members Schedule
by Attained Age & Years of Service



GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

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November 5, 2002

The Board of Trustees
Arkansas Judicial Retirement System
Little Rock, Arkansas

Dear Board Members:

The basic financial objective of the Arkansas Judicial Retirement System as provided in the Arkansas Code is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens and when combined with present assets and future investment return will be sufficient to meet the financial obligations of AJRS to present and future benefit recipients.

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e., the cost assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The most recent valuations were completed based upon population data, asset data, and plan provision as of June 30, 2002.

The AJRS administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. The plan's external auditor also audits the actuarial data annually.

The actuarial report included the following supporting schedules for use in the Comprehensive Annual Financial Report.

Actuarial Section

Summary of Actuarial Assumptions

Percent Retiring Next Year

Probabilities of Retirement for Members Eligible to Retire

Percent Separating Within Next Year

Individual Member Pay Increases

Analysis of Financial Experience

Financial Section

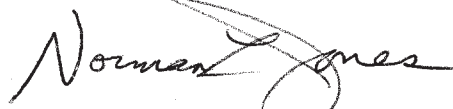
Schedule of Funding Progress

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2002 valuations were based upon assumptions that were recommended in connection with a study of experience through June 30, 2001.

On the basis of the 2002 valuations and the benefits and contribution rates then in effect, it is our opinion that the Retirement System is in sound condition in accordance with actuarial principles of level cost financing.

Respectfully submitted,



Norman L. Jones, F.S.A., M.A.A.A.

***Summary of Assumptions Used
for Arkansas Judicial Actuarial Valuations
Assumptions Adopted by Board of Trustees After
Consulting with the Actuary***

Economic Assumptions

The investment return rate used in making the valuation was 7.0% per year, compounded annually (net after administrative and investment expenses).

Pay increase assumptions for individual active members are shown on page 37. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes wage inflation. This wage inflation assumption consists of 3.0% for price inflation and 1.0% for real wage growth.

Total active member payroll is assumed to increase 4.0% per year, which is the portion of the individual pay increase assumptions recognizing inflation.

The number of active members is assumed to continue at the present number.

Non-Economic Assumptions

The mortality table used to measure retired life mortality was the 1994 Group Annuity Mortality Table.

The probabilities of retirement for members eligible to retire are shown on page 38.

The probabilities of withdrawal from service, ***death-in service*** and ***disability*** are shown for sample ages on page 37.

95% of active members are assumed to be married at the time of retirement or death in service, and the spouse is assumed to be three years younger than the member.

***Summary of Assumptions Used
for Arkansas Judicial Actuarial Valuations
(Concluded)***

The entry age actuarial cost method of valuation was used in determining annuity liabilities and normal cost. Under this method:

- ◆ Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of the actuarial accrued liabilities.
- ◆ Unfunded actuarial accrued liabilities are amortized to produce contribution amounts (principal and interest) which are level percent of payroll contributions.

Funding value of assets (cash & investments) was determined by phasing in differences between actual market return and the assumed rate of return over a four-year period.

The data about persons now covered and about present assets was furnished by the System’s administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

***Decrement and Pay Increase Assumptions for Active Members
June 30, 2002***

Sample Ages	Percent of Active Members Separating Within the Next Year					Pay Increase Assumptions For Individual Member		
	Male		Female		Other	Merit & Seniority	Base (Economic)	Increase Next Year
	Death	Disability	Death	Disability				
30	0.08%	0.08%	0.04%	0.10%	1.00%	0.00%	4.00%	4.00%
35	0.09%	0.08%	0.05%	0.10%	1.00%	0.00%	4.00%	4.00%
40	0.11%	0.20%	0.07%	0.36%	1.00%	0.00%	4.00%	4.00%
45	0.16%	0.26%	0.10%	0.41%	1.00%	0.00%	4.00%	4.00%
50	0.26%	0.49%	0.14%	0.57%	1.00%	0.00%	4.00%	4.00%
55	0.44%	0.89%	0.23%	0.77%	1.00%	0.00%	4.00%	4.00%
60	0.80%	1.41%	0.44%	1.02%	1.00%	0.00%	4.00%	4.00%
65	1.45%	1.66%	0.86%	1.23%	1.00%	0.00%	4.00%	4.00%

***Probabilities of Retirement for Members Eligible to Retire
June 30, 2002***

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year	Percent of Eligible Active Members Electing Early Retirement Within Next Year
50	6%	
51	6%	
52	8%	
53	8%	
54	10%	
55	12%	
56	12%	
57	14%	
58	14%	
59	14%	
60	18%	
61	18%	
62	30%	2%
63	30%	2%
64	30%	2%
65	30%	
66	30%	
67	30%	
68	30%	
69	30%	
70 & Over	30%	

A member was assumed eligible to retire at age 50 with 20 years of service, or at age 65 with 10 years of service. A member was assumed eligible to retire early at age 62 with 14 years of service

*Summary of Provisions
July 1, 2002*

Tier I

Tier II

Description

Elected or appointed prior to the effective date of Act 399 of 1999 and who do not elect to participate in Tier II.

Elected or appointed after the effective date of Act 399 of 1999 or electing to participate in Tier II by October 28, 1999.

Regular Retirement

An active member may retire at age 65 with 10 or more years of credited service, or after 20 years of credited service regardless of age. Persons who become members after June 30, 1983, must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts or the Court of Appeals.

An active member or former member may retire at age 65 with 8 or more years of credited service, or after 20 years of credited service regardless of age.

Compulsory Retirement

Any judge or justice who attains 70 years of age during a term of office to which he has been elected may complete the term without forfeiting rights to retirement benefits. Any judge or justice who is not eligible to retire at age 70 may continue to serve as judge until completion of the term in which there has accrued sufficient credited service to retire. Otherwise, judges or justices must retire by their 70th birthday or lose their retirement benefits.

Any judge or justice who attains 70 years of age during a term of office to which he has been elected may complete the term without forfeiting rights to retirement benefits. Any judge or justice who is not eligible to retire at age 70 may continue to serve as judge until completion of the term in which there has accrued sufficient credited service to retire. Otherwise, judges or justices must retire by their 70th birthday or lose their retirement benefits.

*Summary of Provisions
July 1, 2002*

Tier I

Tier II

Final Salary

A member's salary at the end of the last judicial office.

A member's salary at the end of the last judicial office.

Age & Service Annuity

Sixty percent of the judge's final salary, for life.

3.2% of the salary of the last judicial office held multiplied by the number of years of service not to exceed 80% of the salary of the last judicial office held.

Deferred Retirement

An inactive member who has 14 or more years of credited service and left judicial service before attaining age 65 will be entitled to an age and service annuity beginning at age 65. Persons who become members after June 30, 1983 must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts or the Court of Appeals.

An inactive member who has 8 or more years of credited service and left judicial service before attaining age 65 will be entitled to an age and service annuity beginning at age 65.

Disability Retirement

An active member with 3 or more consecutive years of credited service who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age and service annuity. The 3 years service is not required for persons who were members before July 1, 1983.

An active member with 3 or more consecutive years of credited service who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age and service annuity, except that the benefit shall not be less than 25.6% of final salary.

Summary of Provisions July 1, 2002

Tier I

Early Retirement

A member who became a member before July 1, 1983 and who has 18 but less than 20 years credited service may retire, regardless of age, and receive an immediate annuity. The amount is the full age and service amount reduced proportionately for service less than 20 years.

A member with 14 years credited service may retire between ages 62 and 65 and receive an immediate annuity. The amount is the full age and service amount reduced $\frac{1}{2}$ of 1% for each month retirement age is younger than age 65. Persons who become members after June 30, 1983, must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Court or the Court of Appeals.

Tier II

A member with 8 years credited service may retire between ages 62 and 65 and receive an immediate annuity. The amount is the full age and service amount reduced $\frac{1}{2}$ of 1% for each month retirement age is younger than age 65.

Survivor Benefits

Upon the death of a member with 3 or more years of service, before or after retirement, an annuity of 67% of the judge's final salary is payable to the following survivors (shared if there is more than one eligible survivor):

- A surviving spouse married to the judge more than 1 year at the time of death.
- A minor child of the judge.

The 3 year service requirement is not required of those who became members prior to July 1, 1983

Upon the death of a member with 3 or more years of service, before or after retirement, an annuity of 67% of the judge's benefit, but not less than 17.152% of final salary, is payable to the following survivors (shared if there is more than one eligible survivor):

- A surviving spouse married to the judge more than 1 year at the time of death.
- A minor child of the judge.

The 3 year service requirement is not required of those who became members prior to July 1, 1983.

*Summary of Provisions
July 1, 2002*

Tier I

Tier II

Increases After Retirement

For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased from time to time as the salary for the particular judicial office is increased or decreased. For all judges or justices first elected after June 30, 1983, and who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%.

For all judges or justices who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%.

Member Contributions

Active members contribute 6% of their salaries. Members with 20 or more years of service and members age 65 or older with 10 years or more of service do not contribute to the retirement system. If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.

Active members contribute 5% of their salaries. Members with 25 or more years of service do not contribute to the retirement system. If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.

Short Condition Test – 10-Year Comparative Statement

The AJRS funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will *pay all promised benefits when due—the ultimate test of financial soundness*. Testing for level contribution rates is *the* long-term test.

A *short condition test* is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with:

- 1) Member accumulated contributions;
- 2) The liabilities for future benefits to present retired lives;
- 3) The employer financed portion of liabilities for service already rendered by non-retired members.

In a system that has been following the discipline of level percent of payroll financing, active member contributions (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the System.

Value Date June 30	Entry Age Accrued Liability				Portion of Present Values Covered By Present Assets			
	(1) Active Members	(2) Retirees and Benef.	(3) Active Member (Employer Financed Portion)	Present Assets				
	Contr.				(1)	(2)	(3)	Total
	(\$ in Thousands)							
1993	3,439	24,232	23,471	33,654	100%	100%	25%	66%
1994	3,720	25,161	25,263	37,310	100%	100%	33%	69%
1995(a)	4,261	28,845	26,627	41,095	100%	100%	30%	69%
1996(a)	4,828	32,063	26,561	51,478	100%	100%	55%	81%
1997	5,418	33,295	26,944	63,284	100%	100%	91%	96%
1998	6,067	33,218	31,989	77,175	100%	100%	118%	108%
1999 (a)	6,817	38,040	37,919	91,783	100%	100%	124%	111%
2000 (a)	7,740	39,255	36,217	107,059	100%	100%	166%	129%
2001 (a)	8,522	54,712	52,839	119,191	100%	100%	106%	103%
2002	9,316	53,046	57,544	124,212	100%	100%	107%	104%
2002 (a)	9,316	54,216	61,202	124,212	100%	100%	99 %	99%

(a) After changes in benefit provisions and/or actuarial assumptions and methods.

*Retirees and Beneficiaries as of June 30, 2002
Tabulated by Attained Age*

Attained Age	Retirees		Survivors/ Beneficiaries		Total	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
43			1	\$41,196	1	\$41,196
55	1	\$69,396			1	69,396
56	1	48,888	1	46,500	2	95,388
57			1	48,072	1	48,072
58	1	69,396			1	69,396
60	1	69,396	1	49,632	2	119,028
63	2	155,340			2	155,340
64	1	74,088			1	74,088
65	1	69,396			1	69,396
66	4	259,224			4	259,224
67	1	74,088	1	46,500	2	120,588
68	1	80,196			1	80,196
69	2	137,424			2	137,424
70	2	134,640	1	46,500	3	181,140
71	2	132,516			2	132,516
72	1	68,748	2	91,308	3	160,056
73	1	69,396	2	92,988	3	162,384
74			2	92,988	2	92,988
75	5	402,312	1	46,500	6	448,812
76	4	268,680			4	268,680
77	4	309,936			4	309,936
78	1	72,912	4	185,976	5	258,888
79	1	69,396	1	46,500	2	115,896
80	3	208,188			3	208,188
81	2	141,132	1	46,500	3	187,632
82	1	71,736	1	46,500	2	118,236
83	1	69,396	1	40,596	2	109,992
84	2	138,792	2	96,132	4	234,924
85	2	142,308			2	142,308
86			2	96,132	2	96,132
87			1	46,500	1	46,500
89	1	80,196	2	100,224	3	180,420
90			1	46,500	1	46,500
92			1	49,632	1	49,632
93	1	69,396			1	69,396
95			1	46,500	1	46,500
Totals	50	\$3,556,512	31	\$1,449,876	81	\$5,006,388

*Active Members as of June 30, 2002
By Attained Age and Years of Service*

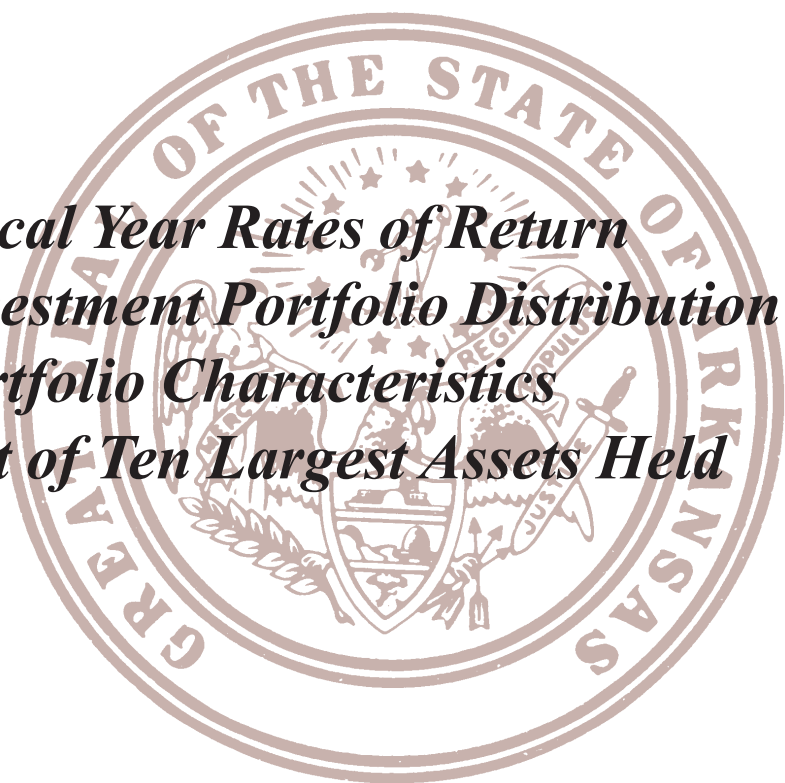
Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
35-39	1	1						2	\$231,318
40-44	4	2						6	693,954
45-49	7	4	1	1				13	1,503,567
50-54	10	11	12	3	1			37	4,295,019
55-59	5	7	9	7	4	1		33	3,832,387
60	1	1	1	1		1		5	582,205
61	1	3	3		1	2		10	1,172,226
62			2	1				3	350,887
63				2		2		4	466,546
64			1	2	2	1		6	709,586
65			1		1			2	231,318
66						2		2	231,318
67			2			1	1	4	480,640
68			1	1				2	231,318
69			1					1	115,659
71		1			1			2	235,228
74		1						1	123,475
Totals	29	31	34	18	10	10	1	133	\$15,486,651

Group Averages:

Age: 55.9 years
Service: 11.9 years
Annual Pay: \$116,441

Investments

IV



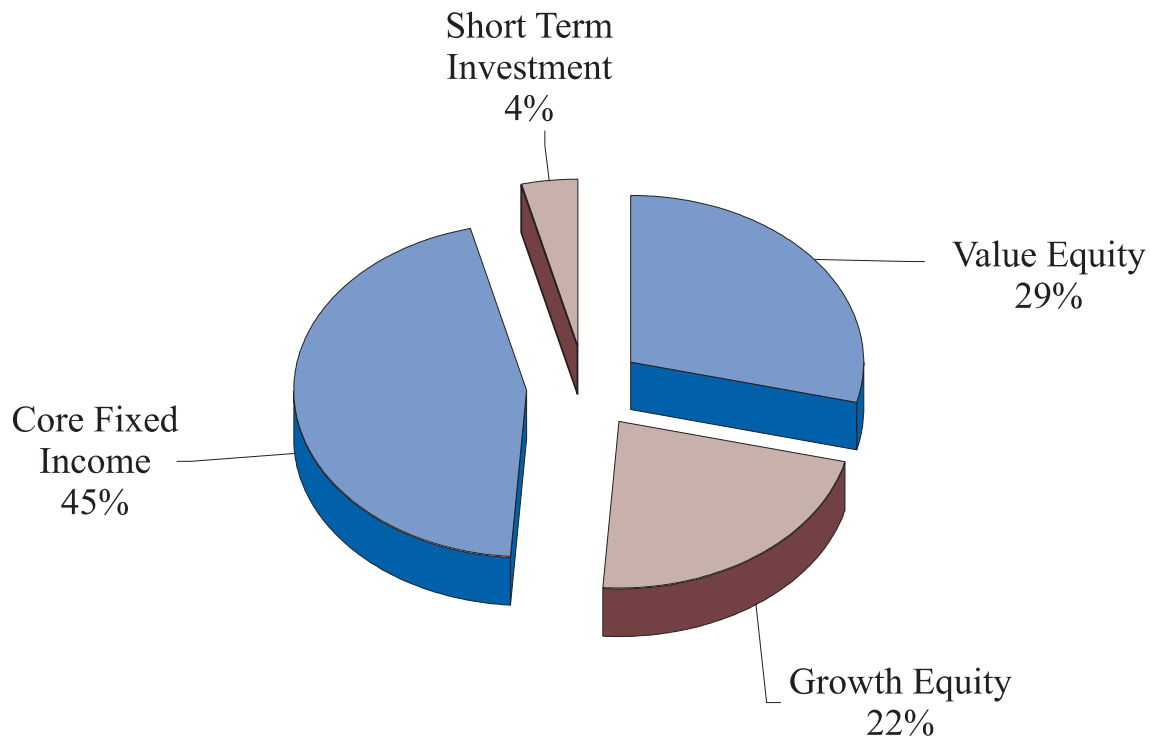
Fiscal Year Rates of Return
Investment Portfolio Distribution
Portfolio Characteristics
List of Ten Largest Assets Held

Fiscal Year Rates of Return

Fiscal Years Ended June 30	2002	2001	2000	1999	1998
Total Fund:					
Arkansas JRS	(2.92)%	(.87)%	11.16%	12.83%	22.03%
Callan Total Public Fund Median	(5.15)	(4.06)	10.00	10.65	17.96
Inflation (Consumer Price Index)	0.74	3.19	3.87	1.94	1.60
Equities:					
Arkansas JRS	(11.62)	(12.05)	16.29	21.40	32.37
Callan Total Equity Data Base Median	(15.84)	(5.29)	11.63	14.44	25.71
Standard & Poors 500 Index	(17.99)	(14.83)	7.24	22.76	30.23
Fixed Income:					
Arkansas JRS	7.18	11.99	4.02	3.40	11.63
Callan Total Fixed Income Data Base Median	7.86	11.03	4.57	3.46	10.17
Lehman Bros. Aggregate Index	8.63	11.22	4.57	3.15	10.54

Source: Callan Associates Inc. (CAI database contains returns of
over 4,000 tax-exempt retirement funds and investment managers.)

*Investment Portfolio Distribution
June 30, 2002*



Value Equity

Boston Partners	\$ 32,032,667
-----------------	---------------

Growth Equity

Loomis Sayles & Co.	24,373,081
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Core Fixed Income

Loomis Sayles & Co.	49,919,373
---------------------	------------

Short Term Investments

4,286,613

Total Investments

<u>\$ 110,611,734</u>

Portfolio Characteristics

Selected Bond Characteristics:	<u>6/30/02</u>	<u>6/30/01</u>
Yield to Maturity (Market)	5.45%	6.49%
Current Yield	6.25	6.79
Average Coupon Rate	6.34	6.78
Average Maturity	6.08 Yrs.	7.75 Yrs.

Quality Breakdown:

AAA (Including Govts. & Agencies)	48.8%	43.6%
AA	2.9	4.7
A	14.9	27.5
BAA	24.3	18.9
*Cash	9.1	5.3

Selected Stock Characteristics:

Average P/E Ratio	29.99 x	28.04 x
Estimated Earnings Growth Rate (Next 5 Years)	13.22%	15.32%
Current Yield	1.19%	1.11%

* Includes Short-Term Investment Fund.

Information supplied by Callan Associates

List of Ten Largest Holdings (Market Value)
June 30, 2002

Fixed Income:

<u>Par</u>	<u>Description</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Market Value</u>
\$2,288,463	Federal Home Loan Mtg Corp GRP#E00975	6.000%	05/01/16	\$2,337,093
1,905,000	GNMA Pool #569838	6.000%	06/15/32	1,902,619
1,905,000	GNMA Pool #596900	6.000%	06/15/32	1,902,619
1,400,000	Federal Home Loan Mtg. Corp. SER 2344 CL-QB	6.000%	07/15/11	1,457,689
1,300,000	Federal Home Loan Mtg. Corp.	6.875%	01/15/05	1,409,688
1,200,000	CalEnergy Inc.	7.630%	10/15/07	1,295,160
1,180,000	Simon DeBartolo Group	6.875%	10/27/05	1,239,932
1,200,000	Kerr McGee Corp.	5.875%	09/15/06	1,234,656
1,165,000	Sears Roebuck Accep Corp.	6.700%	09/18/07	1,233,956
1,150,000	Coastal Corp.	7.500%	08/15/06	<u>1,170,781</u>
Total				<u>\$15,184,193</u>

Equity:

<u>Shares</u>	<u>Description</u>	<u>Market Value</u>
20,400	Microsoft Corp.	\$1,115,880
17,700	Federal Home Loan Mtg. Corp.	1,083,240
13,090	American International Group Inc.	893,131
16,700	Johnson & Johnson	872,742
21,813	Citigroup Inc.	845,254
52,600	Cisco Systems Inc.	733,770
7,900	Procter & Gamble Co.	705,470
11,950	MBIA Inc.	675,534
12,500	L-3 Communications Holdings Inc.	675,000
24,800	Marathon Oil Corp.	<u>672,576</u>
Total		<u>\$8,272,597</u>

***Arkansas Judicial Retirement System
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